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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Dollar Depressants

Although the last gasp of summer in the Northern Hemisphere is often associated with listless activity in the foreign exchange markets, a far different climate has prevailed in the currency pits in recent weeks. With the thrust of monetary policy in the United States and Germany headed in opposite directions and the spread between U.S. and German short-term interest rates widening to a postwar high, yield differentials alone are providing more than enough justification to traders and investors to shun the dollar and husband Deutschemarks. But this isn't the only reason for the dollar's tumble to an all-time low versus the German currency.

Hovering just off-stage are the future policy uncertainties associated with the upcoming U.S. Presidential elections and this month's referendum in France on the proposed outlines of European monetary union. At this juncture, the dollar seems to come up short whatever the voters here and in France decide. In the United States, the global investment community has understandably shown little faith in either Party's ability to remedy Washington's deep-seated financial ills. In France, a thumbs up to the proposed monetary union would bolster confidence in Europe's commitment to monetary and fiscal discipline; a no vote would do the opposite — possibly touching off a scramble to find a safe harbor which many assume only the tight-fisted inflation-fighters in Germany can provide.

Economics Department 44/270

The most obvious dollar depressant is the wide disparity in short-term interest rates between the United States and Europe. Although dollar-unfriendly international interest rate differentials have prevailed for quite some time, expectations abounded earlier this year that a change was in the offing. If all went right, according to the dollar enthusiasts, U.S. interest rates would be heading higher by this time as the economic recovery here picked up momentum and European interest rates would be trending lower as monetary policies were relaxed there in order to combat a widespread limpness in business conditions. But while the U.S. economy has indeed been expanding for five straight quarters and large swaths of Europe are mired in a prolonged period of economic stagnation, this has yet to translate into narrower interest rate differentials.

Faced with an admittedly lethargic business rebound and the virtual absence of inflation pressures, the Federal Reserve has found itself with an unusual degree of policy flexibility and has decided to use it, repeatedly shoving short-term interest rates lower in an all-out attempt to place the economy on a faster growth track. But whereas inflation is viewed as a distant threat in this country, it is priority number one at the German central bank. Uncomfortable with what had been a four percent plus inflation rate and nearly double-digit rates of money supply growth, the Bundesbank has marched to the tune of a different drummer, tightening monetary policy even in the face of a faltering business pace in Germany itself, and elsewhere in Europe where German interest rate increases have been matched in order to maintain intra-European exchange rate stability. The footprint of these starkly different monetary policies has been a widening differential between U.S. and European interest rates; three-month Euro-Deutschemark rates now stand just about 6½ full percentage points above comparable-term Eurodollar rates.

Two Votes

The potential results of two forthcoming votes have added to the worries surrounding the dollar's future course. Perhaps just as toxic as existing yield differentials to the dollar's global allure is a widespread belief that the upcoming Presidential elections in this country will do little to redress Washington's chronic financial ills—which many global investors arguably believe lie at the heart of the economy's, and the dollar's current woes. With the Administration proposing across-the-board tax cuts and ill-defined spending limitations, while the Democratic challenger promises some $200 billion of additional discretionary Federal spending and few substantive revenue "enhancers", well-founded doubts have arisen regarding either candidate's commitment to Federal deficit reduction. And, while large Federal deficits have not precluded either a decided slowing of inflation or a plunge in interest rates, the skeptics argue that these developments are due to the malaise of the private sector—a problem which is unlikely to go away as long as the Federal

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government absorbs an-ever-larger proportion of the net national savings which could otherwise be used for job-creating, productivity-boosting investment.

But more immediate dangers for the dollar lurk behind this month's referendum in France, which may determine the future speed at which Europe moves toward a single currency and one central bank. Although the vote could go either way, French acceptance of the so-called Maastricht Treaty could enhance further the desirability of European currencies. Outlining strict economic criteria for full participation in monetary union, a yes vote would not only keep alive this visionary effort, but it would also lessen the likelihood of any backsliding by the members of the European Monetary System (EMS) in their commitment to monetary and budgetary discipline. In practical terms, public policy would continue to be characterized by lofty interest rates and efforts to keep budget deficits in check.

Scylla and Charybdis

A rejection of the Maastrict framework, on the other hand, may also work against the dollar, especially in relation to the mighty Deutsche-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/19/92)	136.419	- 1,463	- 50,178
New York City (8/26/92)	24.586	- 696	- 5,970
Commercial Paper (8/26/92)	540.296	+ 875	+ 4,589

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/19/92)	276.705	- 283	- 23,114
New York City (8/26/92)	48.064	- 508	- 5,790

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/19/92)	980.381	- 2,331	- 39,980
New York City (8/26/92)	158.775	+ 2,027	- 12,036

Financial Markets

	Friday 9/4/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, 2 p.m. Yields:			
90-Day Bills†	2.96%	- .26	- 2.47
180-Day Bills†	3.03	- .30	- 2.50
Longest Bills†	3.15	- .29	- 2.47
Recent Issues:			
4¼s 7/31/94	3.85	- .31	
5½s 7/31/97	5.28	- .33	
7½s 5/15/02	6.39	- .24	
8s 11/15/21	7.28	- .14	
Municipals:			
Bond Buyer—20 Bond Index* (9/3/92)	6.24%	- .07	- .62
Blue List Total ($ Million)	$1.132	- $ 459	- $ 26
30-Day Visible Supply ($ Million)	$6.224	+ $1,890	+$3,273
Total	$7.356	+ $1,431	+$3,247
Corporates:			
Moody's Aa Composite (9/3/92)	8.19%	- .06	- .75
30-Day Visible Supply ($ Million)	$1.425	- $ 590	+$ 620
Stocks: (Thursday)			
Dow-Jones Averages:			
Industrials	3.292.20	+ 29.18	+280.57
Transportation	1.262.07	+ 50.00	+ 86.99
Utilities	219.70	+ 1.37	+ 13.45
65 Stocks	1.152.81	+ 20.23	+ 88.29
N.Y.S.E. Composite Index	230.12	+ 2.39	+ 16.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	228.049	+ 13,819	+68,144

*34% Taxable equivalent 9.45%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/4/92	Week Ago
Overnight	3.00%	3.38%
1 month	3.13	3.44
3 month	3.13	3.44
6 month	3.19	3.44
1 year	3.38	3.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/4/92)	Currency Per U.S. $	Week Ago
Belgium	28.98	29.03
Canada	1.1984	1.1949
France	4.7750	4.7894
Germany	1.4045	1.4069
Italy	1074.00	1074.00
Japan	123.10	123.77
Mexico	3076.25	3083.51
Netherlands	1.5816	1.5877
South Korea	785.65	789.20
Switzerland	1.2515	1.2598
Taiwan	24.84	24.90
U.K.*	1.9945	1.9830

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (9/4/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.8%	-22.0%

mark. Following Denmark's early-June rejection of the Maastrict proposals, nervous investors poured "hot money" into Germany and the dollar took a pronounced tumble. This time around, the same thing might happen but with an added wrinkle. Although admittedly a long-shot, such economically-weaker countries as the United Kingdom and Italy might seize the opportunity to ease monetary policy while lowering the value of their currencies to more readily defensible positions versus the Deutschemark. If such a realignment does occur, the German currency's attractiveness could be enhanced further.

Stung by criticism of the recessionary impulses bequeathed to much of Europe by its tight-fisted monetary policy, the Bundesbank has had to temper at times its inflation fight, navigating between the Scylla of what it views as a premature easing of monetary policy demanded by others and the Charybdis of the growing enmity of its EMS partners. Rejection of Maastrict, if followed by currency realignment, would relieve intra-European exchange rate tensions and permit the German central bank to pursue even more vigorously its domestic agenda—vanquishing inflation and keeping the Deutschebank the safest harbor around.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/2/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	285.943	+ 3.908	+21.988
Loans to Depository Inst.	249	- .017	- .581
Float	785	+ .061	+ .599
Total Reserve Bank Credit	317.527	+ 4.424	+21.191
Treasury Deposits with Federal Reserve Banks	5.744	+ .124	- .516
Currency in Circulation	316.453	+ 1.090	+21.313
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	295.956	+ .854	+46.845
	9/2/92		
Member Bank Reserves:			
Total Reserves Held	49.530	- .798	- .800
Excess (Deficiency)	1.172	+ .351	- .101
Net Free Reserves	914	+ .342	+ .030
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (8/24/92)	972.1	+ 7.8	+ 12.2
M2 (8/24/92)	3.464.6	- 0.4	+ 1.6
M3 (8/24/92)	4.167.5	- 0.9	+ 0.3
Domestic Nonfinancial Debt (1st Q'92)	11.304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/4/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	2.90%	2.96%	3.04%
* Federal Agencies	3.00	3.10	3.23
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.09	4.24	4.39
Negotiable Time CDs Chemical	Rates By Arrangement		
* Secondary Market–Prime	2.80	2.90	3.00

‡ Finance Company Paper–Prime

5- 14 days	2.95%
15- 29 days	3.00
30- 59 days	3.05
60- 89 days	3.05
90-179 days	3.05
180-239 days	3.05
240-270 days	3.05

‡* Bankers' Acceptances

Oct.	3.25%
Nov.	3.25
Dec.	3.25
Jan.	3.25
Feb.	3.22
Mar.	3.21

‡ Industrial Paper–Prime

30- 89 days	3.10%
90-120 days	3.10

†Federal Funds Effective Rate 2.94%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	$ 5.899r	$ 5,840r	$ 5,658r
Gross Domestic Product (1987 Dollars)*	2nd Q'92	$ 4.891r	$ 4,874r	$ 4,817r
Percent Change, Annual Rate	2nd Q'92	1.4r	2.9r	1.7r
Change in Consumer Prices*	Jul '92	1.2%	3.6%	1.2%
Change in CHEM Cost of Living Index*	Jul '92	1.2%	1.2%	0.0%
Change in Producer Prices*	Jul '92	1.2%	2.4%	- 2.4%
Civilian Employment (Thousands of Persons) †	Aug '92n	117.737	117,772	116,484
Unemployment as % of Civilian Labor Force †	Aug '92n	7.6%	7.7%	6.8%
Personal Income*	Jul '92n	$ 5.050	$ 5,039r	$ 4,828
Leading Indicators Composite Index (1967=100) †	Jul '92n	149.6	149.5r	145.6
Industrial Production Index (1977=100) †	Jul '92	108.9	108.5	108.1
Net Change in Consumer Installment Credit †	Jun '92	- $ 1.02	- $ 0.89	- $ 1.62
U.S. Merchandise Trade Balance †	Jun '92	- $ 6.59	- $ 7.14	- $ 4.67r
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Jul '92	1.119	1,151	1,053
New Construction Expenditures*	Jul '92n	$ 422.0	$ 424.4r	$ 397.0r
Total Business Inventories †	Jun '92	$ 833.4	$ 828.0	$ 820.7
Total Business Sales †	Jun '92	$ 555.0r	$ 546.1	$ 534.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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